3 pgs. MAS

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TO: Mr. M. D. Lamphier

FROM: E. M. McAtee

SUBJECT: AMERICAN SPIRIT

Share of Market

- As of August quarter the top region in share of volume for American Spirit are:

Northern California	.22	Increase quarter to quarter
New York Metro	.20	Flat past two quarters
Houston	.18	Declines indicated past 2 quarters
Denver	.15	Steady increase in 1996
Seattle	.12	Up slightly quarter to quarter

- Nationally American Spirit has posted a .05 share of volume.
- Currently measured in 8 regions. Denver region first region with distribution (in market since early '94).
- New York Metro and Northern California followed Denver in expansion. Both markets exceed Denver and show steady growth (in market since September '94 quarter).
- Houston relatively new market (in market since September '95 quarter). Highest rate of increase first 3 quarters. Seems to have peaked and declining past two quarters.

Volume

- Total U.S. volume on American Spirit has risen from 6,408,000 stix in 1993 to 71,165,000 in 1995. YTD through September the brand has shipped 119,448,000. Significant increases.
- Volume by outlet type total U.S.

SM	4.6%
CG	24.6%
OO	70.6%

- OO (other outlets) include:

SF	29.3
DG	3.1
LQ	11.1
TN	17.4
CO	9.9

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Source: https://www.industrydocuments.ucsf.edu/docs/pjbn0000

- Of the top regions sales are driven in the following outlets:

Northern California	73%	CG	CG strong lack of SF independents
New York	96%	OO (SF, TN and DG)	SF, TN independents driving volume
Houston	99%	OO (SF, LQ)	Only independents in the market
Denver	52% 25% 21%	OO (SF, LQ) CG SM	Denver was Supermarket driven initially. In '95 drove volume to double
Seattle	66%	OO (SF, LQ)	Takes on same appearance as N. California. Limited independent retailers

Volume Brand Type

Northern California	FF NM 85 S - 68%	FL NM 85 S - 24%
New York Metro	FF NM 85 S - 62%	FF M 85 B - 14% NF NM 85 S - 14%
Houston	FF NM 85 S - 66%	FL NM 85 S - 22%
Denver	FF NM 85 S - 53%	FL NM 85 S - 33%
Seattle	FF NM 85 S - 54%	FL NM 85 S - 27%

Non-Menthol base. Soft pack preference. Menthol and Box significant in New York only.

- American Spirit has generated a growing niche in several markets since its introduction in 1992. YTD the brand has sold 120 million stix. If they continue at this pace, they exit '96 selling 159 million, up 44% over 1995.

- Highest level of activity is Northern California and New York. Both markets indicate a .2 or better SOM, followed by Houston, Denver and Seattle. Northern California and New York are hot beds for new trends, something different. Houston is driven by the Austin market, Denver and Seattle are also markets skewing demographic make-up higher young adults than the U.S. as a whole. The proposition seems to appeal to all age groups but the younger adult seems to have embraced as the "camp" thing to do.

- The first style FF NM 85's S is the best seller in all markets. In New York Box and Menthol versions are significant which is a fallout of the higher than normal development of menthol (Newport) and the overdeveloped box preference fueled by Marlboro and Newport.

- American Spirit stated objective is to make the brand available in non-chain outlets. This direction explains the heavy skew of volume in small independent classes of trade such as SF, LQ, TN, etc. This also offers more word of mouth endorsement by shop keepers which only adds to the "specialness" of the brand. This approach may be modified as the brand gains distribution in markets not dominated by independents. It would be reasonable to assume they would heavy up with direct mail in these chain dominated markets or abandon their "non-chain outlet strategy.

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- The growing popularity of American Spirit according to Robin Sommers, Santa Fe President, "and brands like it play off a variety of factors, ranging from the popularity of the all-natural cigar to increasing demand for healthier products, especially in light of recent revelations that tobacco companies add several unsavory chemicals to their cigarettes."

- Officials at American Spirit report that California is its most lucrative market.

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cc: FI

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